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The HBE Report ◆ June 29, 2026

Sacramento Information and Insights from Hurst Brooks Espinosa

Legislature Passed Final Budget in Newsom Era: Fiscal Stability Meets a New Federal Reality

Governor Gavin Newsom and legislative leaders announced Friday that they had reached agreement on the 2026-27 state budget – and just in the nick of time! The negotiated three-party agreement is being voted on today, the last day the Governor can sign AB 109, which is the Legislature's proposed spending plan (i.e., the two-party agreement) passed on June 15. Today's votes conclude one of the most consequential budget negotiations of the Newsom Administration. The agreement balances the budget not only for the coming fiscal year but also projects no operating deficit in 2027-28, preserves historic levels of reserves, and continues investments in healthcare, education, housing, behavioral health, and public safety. Yet while the Governor has understandably framed the agreement as a testament to fiscal discipline, the final budget tells a broader story. It represents California's first comprehensive response to the sweeping federal policy changes enacted through H.R. 1 and offers perhaps the clearest reflection yet of Governor Newsom's governing legacy as he prepares to leave office amid widespread speculation about his political future.

Throughout this year's budget process, the Governor consistently emphasized stability. After several years marked by revenue volatility and repeated budget deficits, the Administration made balancing the state's books both for the upcoming and future budget years its defining objective. The final agreement highlights two consecutive years without a projected deficit, strengthens California's reserve structure through a proposed constitutional amendment, and continues the Governor's emphasis on maintaining fiscal flexibility in anticipation of future economic uncertainty. That message reflects a remarkable evolution from the early years of the Newsom Administration, when unprecedented surpluses fueled historic investments across virtually every area of state government.

Legislative leaders embraced a different but complementary theme. While supporting the Governor's fiscal framework, Assembly and Senate leaders argued that H.R. 1 presented an unprecedented federal assault on California's healthcare and safety-net programs that demanded mitigation. Rather than emphasizing reserves or deficit reduction, legislative leaders focused on delaying healthcare reductions, protecting vulnerable populations, expanding housing investments, preserving education funding, and rejecting proposed reductions to core safety-net programs. In many respects, differing perspectives of various parties reflect different responsibilities: the Governor's obligation to preserve California's fiscal stability, the Legislature's focus on protecting

Californians from federal policy changes, and counties' responsibility for translating those policy decisions into services delivered on the ground.

For counties, the Legislature's willingness to prioritize implementation funding and reject several proposed cost shifts represented one of the most significant outcomes of the final agreement. As described in greater detail below, the budget – while falling short of addressing the looming indigent healthcare challenge – takes meaningful steps toward mitigating many of the immediate fiscal and operational consequences of H.R. 1. Thanks in large part to sustained advocacy by counties and public hospitals, policymakers recognized that H.R. 1 fundamentally changed the state's budget outlook, forcing difficult decisions about which programs could realistically be protected, delayed, or expanded in the face of substantial reductions in anticipated federal support.

The final agreement includes several significant county priorities. It provides $420 million in one-time funding to support county implementation of H.R. 1 eligibility changes, including resources for both Medi-Cal and CalFresh administration. It rejects the Administration's proposal to shift future In-Home Supportive Services cost growth to counties, preserving hundreds of millions of dollars in future local costs. The budget also maintains $900 million for Round 7 of the Homeless Housing, Assistance and Prevention (HHAP) Program, provides $250 million to support public hospitals, continues funding for the Medi-Cal Mobile Crisis Benefit, allocates $34 million for county election administration, and includes targeted investments supporting behavioral health, Proposition 36 implementation, victims' services, and other county-administered responsibilities.

At the same time, important gaps remain. Most notably, the final budget does not include funding to assist counties with the expected increase in indigent healthcare resulting from H.R. 1, nor does it establish an emergency-services-only healthcare program for individuals expected to lose full-scope Medi-Cal eligibility under new federal work requirements. While the budget provides important implementation funding, counties continue to face substantial uncertainty as they prepare for increased service demands alongside new administrative responsibilities.

In many respects, this budget serves as a fitting capstone to Governor Newsom's nearly eight years in office. This Administration has faced dramatically different fiscal environments – from unprecedented surpluses during the COVID recovery to structural deficits driven by revenue slowdowns and, now, major federal policy changes. Throughout that period, the Administration consistently pursued large-scale investments in Medi-Cal expansion, behavioral health transformation, housing production, homelessness response, climate resilience, infrastructure, and public education while simultaneously building what are now the largest reserves in state history. Whether viewed favorably or critically, Newsom has consistently governed with the belief that the state budget is more than an accounting document but is, rather, the principal instrument through which California advances its policy priorities. As legislators so often observe during budget deliberations, budgets are ultimately statements of values and priorities – and this one is no exception.

The final Newsom budget also marks the beginning of a new chapter. The Governor now enters the final months of his administration having largely achieved the fiscal objectives he set for his administration: restoring reserve levels, paying down long-term liabilities, and leaving behind a balanced budget despite significant external pressures. Yet the greatest challenges associated with this budget now shift from adoption to implementation. The next Governor – and California's 58 counties – will inherit the responsibility of implementing H.R. 1, managing growing demand for safety-net services, and sustaining many of the state's signature investments amid continuing federal uncertainty. Ultimately, this budget may be remembered less for balancing two years of deficits than for positioning California for an era in which state and local governments will be called upon to absorb greater responsibility as federal support becomes increasingly uncertain. The years ahead – not just the coming budget cycle – will test whether the investments included in this agreement are sufficient not only to administer sweeping new federal requirements, but also to preserve the essential public services upon which millions of Californians depend.

Both full budget committees met today to review and discuss the package of budget and trailer bills that comprise the three-party agreement. (See the houses' summaries of the plan here: **Assembly** | **Senate**.) The committees received considerable public comment on the final budget plan in today's hearing. A few notes of interest – first, Senate Budget and Fiscal Review Chair John Laird clarified that no individual member requests are funded in the three-way agreement, although some caucus requests were funded. Conversations will continue into August on members' requests, so it is possible that additional investments in legislators' priorities could appear in late-session budget actions.

Finally, we provide below a high-level summary of key outcomes on individual budget items in the final package voted on today. In the second attachment, we have updated the table detailing the entire June budget and trailer bill package, including those measures acted on today. Also included in that same attachment is a detailed summary of the main provisions of each budget and trailer bill. We anticipate additional action on one trailer bill later this week and likely more budget-related activity when members return in August. Let us know if you have questions!

Health and Human Services	
H.R. 1 Implementation	▪ **Medi-Cal Eligibility.** Provides $197 million General Fund in 2026-27 for county eligibility workload related to H.R. 1 implementation. ▪ **CalFresh Eligibility.** Provides $223 million General Fund for counties to implement H.R. 1 for Able-Bodied Adults Without Dependents (ABAWDs). Funds allocated pursuant to this provision are available for encumbrance or expenditure through June 30, 2029.

Health and Human Services	
	▪ **Public Hospitals.** Provides $250 million General Fund for 2026-27 to support California's designated public hospitals. ▪ **Indigent Care.** The final agreement includes no funding for counties for indigent care or for an indigent care alternative. ▪ **Behavioral Health.** No funding provided for H.R. 1 behavioral health impacts.
Medi-Cal	▪ **Qualified Non-Citizen populations.** Provides $303.2 million to delay the transition of certain immigrant populations (e.g. asylees, victims of human trafficking, etc.) to restricted scope Medi-Cal until July 1, 2027. ▪ **Asset Test.** Maintains the current Medi-Cal asset limit test of $130,000 for a person / $195,000 for a couple until July 1, 2027. Updates the Medi-Cal asset limit test to $21,000 for a person / $31,000 for a couple beginning July 1, 2027. ▪ **Managed Care Organization (MCO) Tax.** Adopts the Administration's proposed MCO tax and includes $575 million General Fund savings in 2026-27, $2.3 billion in 2027-28 and 2028- 29, and $1.7 billion in 2029-30, as a result of the reauthorization of a new, federally compliant tax on managed care organizations. ▪ **Fair Share from Big Corporations Act.** Moves the "fair share for big corporations" discussion forward with a requirement for the Department of Finance to provide draft bill options by March 2027 to hold large employers accountable for employees on Medi-Cal. If Congress repeals cruel Medicaid provisions in Trump's H.R. 1, the requirement for Finance to provide these options would be paused. ▪ **Proposition 56 Medi-Cal Dental.** Delays the elimination of Proposition 56 Medi-Cal Dental supplemental rates funded through General Fund to July 1, 2027. ▪ **Program of All-Inclusive Care for the Elderly (PACE).** Rejects the proposal to implement a rate cap for Program of All-Inclusive Care for the Elderly (PACE) organizations at the actuarial lower bound rate, resulting in General Fund costs of $33.7 million in 2026-27 and $84.9 million ongoing. ▪ **Program of All-Inclusive Care for the Elderly (PACE).** Allocates $400,000 General Fund to DHCS to support application assistance for Program for All-Inclusive Care for the Elderly (PACE) beneficiaries. ▪ **Acupuncture Benefit.** Rejects the elimination of the Medi-Cal adult acupuncture benefit, resulting in General Fund costs of $5.4 million in 2026-27 and $13.1 million ongoing. ▪ **Community Supports and Enhanced Care Management**. Reflects $68.3 million General Fund savings from reforms to enhanced care management and community supports services in Medi-Cal. ▪ **Medi-Cal Managed Care Plans**. Includes the redirection of medical loss ratio remittances from Medi-Cal managed care plans to the General Fund beginning in 2027-28, for estimated General Fund savings of $25 million annually. ▪ **Congregate Living Health Facilities.** Allocates $7.7 million General Fund one-time to support rate increases for congregate living health facilities.

<table>
<tr><th colspan="2">Health and Human Services</th></tr>
<tr><td></td><td>Private Duty Nursing. Includes $30 million General Fund in 2026-27 to support rate increases for private duty nursing.</td></tr>
<tr><td>Medi-Cal: Proposals Impacting Individuals with Unsatisfactory Immigration Status (UIS)</td><td>Clinic Reductions Delay. Delays implementation of planned reduction to clinic Prospective Payment System (PPS) rates from July 1, 2026 to July 1, 2027, resulting in a cost of $1 billion in 2026-27.
Medi-Cal Premiums Delay and Trigger. Continues the delay of Medi-Cal premiums for the UIS population until July 1, 2027, but requires the Governor to set and announce a premium level between $0 and $50 by April 1, 2027.
Dental Reduction Delay. Maintains dental programs that would otherwise be eliminated starting July 1, 2026 to July 1, 2027, including dental benefits for adults 19 and over, regardless of immigration status.
Transition to Fee-for-Service. Adopts the Administration’s proposal to move individuals with Unsatisfactory Immigration Status in Medi-Cal managed care to fee-for-service Medi-Cal, including $471.6 million General Fund savings in 2026-27. Provides $39 million to support care coordination resources as well as clinic and community-based organization navigators to assist members with the transition.</td></tr>
<tr><td>Behavioral Health</td><td>Mobile Crisis. Maintains the mobile crisis benefit until July 1, 2027 with $42.2 million General Fund.
988 Crisis Centers. Budget materials note continued work between the Administration and Legislature to address long-term funding sustainability for the 988 system and mobile crisis response services.
Anosognosia Pilot. Provides $5 million General Fund in 2026-27 for a behavioral health pilot program with CenCal Health to treat individuals with severe schizophrenia, or Anosognosia.</td></tr>
<tr><td>Department of Health Care Access and Information</td><td>Distressed Hospital Loan Program. Allocates $90 million General Fund to support grants to distressed hospitals and authorizes the Department of Finance to augment the grant program by up to $50 million.
Distressed Hospitals. Allocates $10 million General Fund to HCAI to establish a health care access stability unit to evaluate hospitals’ strategic importance to their communities to assist policymakers to maintain access to critical services in the event of a hospital’s financial distress.
Midwifery Education and Training. Includes $750,000 General Fund in 2026-27 to support the implementation of a study of midwifery education and training in California, as directed by AB 836 (2025).
Physician Access and Workforce Development. Include $5 million General Fund in 2026-27 to support physician access and workforce development in shortage areas.
Reproductive Health. Appropriates $30 million General Fund in 2026-27 for the Uncompensated Care program and an additional $10 million for the Abortion Practical Support program.
Gender Affirming Care. Allocates $10 million General Fund in 2026-27, and $8 million General Fund in 2027-28 and 2028-29, to HCAI to support a gender affirming care provider network stabilization and uncompensated care grant program.</td></tr>
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Health and Human Services	
Department of Public Health	▪ **Funds Public Health Information Technology (IT) Systems.** Allocates $113.3 million General Fund to the Department of Public Health (CDPH) to support critical public health information technology systems. ▪ **End the Epidemics.** Implements a four-year expenditure plan for projects to end the epidemics of HIV/AIDS and other sexually transmitted infections, using nearly $500 million of AIDS Drug Assistance Program Rebate Fund resources being repaid from previous General Fund loans. ▪ **Sickle Cell Centers for Excellence.** Appropriates $30 million General Fund over five years to CDPH to support Sickle Cell Disease Centers for Excellence. ▪ **University of California Menopause Center of Excellence.** Redirects $3.4 million one-time General Fund in 2026-27 to the University of California Menopause Center of Excellence for a statewide perimenopause and menopause campaign. ▪ **LGBT Centers.** Includes $10 million General Fund in 2026-27 to support LGBT Centers.
Covered California	▪ **State Premium Subsidy Program.** Provides an additional $110 million in 2026-27 and ongoing for a total of $300 million annually to expand the State Premium Subsidy Program. ▪ **Reproductive Health.** Provides $20,350,000 in 2026-27 and ongoing from the Health Care Affordability Reserve Fund to support the One-Dollar Premium Subsidy Program to provide payments to qualified health plan issuers for reproductive health services. Includes provisional language to provide an additional year of encumbrance authority and to authorize augmentation of this appropriation for the 2027 coverage year. ▪ **Gender Affirming Care.** Includes $26.8 million in 2026-27 and $13.4 million in 2027-28 and going from the Health Care Affordability Reserve Fund augment the Gender Affirming Care program beginning in the 2026 coverage year, to align program funding with projected per-member-per-month costs.
In-Home Supportive Services	▪ **Cost Shift to Counties.** Rejects the Governor's January cut proposal to shift costs in the In-Home Supportive Services program to counties with use of a statewide average on assessed hours in its entirety, including the proposed savings and the proposed trailer bill language. ▪ **Backup Provider System.** Rejects the Governor's January cut proposal to eliminate the In-Home Supportive Services Backup Provider System in its entirety. ▪ **Auto-Termination of IHSS Eligibility.** Rejects the Governor's January cut proposal on Auto-Termination of IHSS Eligibility to Align with Medi-Cal Loss in its entirety.
Adult Protective Services	▪ Rejects the Governor's May Revision cut proposal to eliminate the Adult Protective Services expansion and enhanced case management in its entirety, including the proposed savings of $70 million General Fund ongoing and the proposed trailer bill language.

Health and Human Services	
CalFresh and Food/Basic Needs	▪ **CalFresh County Match Waiver.** Includes trailer bill language for the CalFresh County Match Waiver. ▪ **CalFresh Outreach Program**. Includes $14 million General Fund one-time for the CalFresh Outreach Program, with Budget Bill Language. ▪ **CalFood.** Includes $108 million General Fund for CalFood in 2026-27, with Budget Bill Language. ▪ **Diaper Banks.** Includes $16.5 million General Fund one-time for the purchase and distribution of diapers and wipes, with expenditure authority until June 30, 2028.
Foster Care and Child Welfare	▪ Includes $20 million General Fund one-time for Child Protective Services Emergency Response, with expenditure authority until June 30, 2028.
Human Services Housing and Homelessness Services	Includes $100 million in one-time human services housing investments; funds are available through June 2028: ▪ **Housing Disability Advocacy Program.** Includes $25 million General Fund one-time for the Housing Disability Advocacy Program. ▪ **Home Safe Program.** Includes $50 million General Fund one-time for the Home Safe Program. ▪ **Bringing Families Home Program.** Includes $15 million General Fund one-time for the Bringing Families Home Program. ▪ **CalWORKs Housing Supports Program.** Includes $10 million General Fund one-time for CalWORKs Housing Supports Program (HSP). The budget also includes a reappropriation of approximately $45 million of unspent funds from 2025-26 for HSP.
Immigration Legal Aid	▪ Provides a total of $175 million for Legal Aid programs, which is $80 million more than provided in the May Revision to build broader reach throughout the state, including rural areas. Funds will be allocated throughout the state to support removal defense, unaccompanied children, legal capacity building, and emerging due process needs to support all immigrant groups.
Child Care	▪ Appropriates $228 million General Fund for the expansion of 22,770 new child care spaces in 2026-27. Of the 22,770 new child care spaces, 20,700 are voucher spaces, and 2,070 are General Child Care spaces. Includes $41.4 million General Fund to backfill approximately 3,430 of the approximately 6,800 child care spaces, previously funded with Proposition 64 and federal funds, proposed to be eliminated by the Governor. Relative to the Governor's May Revision, the budget includes a total of 26,200 additional child care spaces. Taken together, these actions bring the ongoing child care expansion to approximately 149,400 new funded child care spaces above 2020-2021 levels.

State Administration and General Government	
Local Government Assistance	▪ Includes $80 million for Alpine, Mono, and San Mateo Counties to offset losses associated with insufficient ERAF amounts. Of the amount, $181,000 is to reimburse the County of Alpine, $2,869,000 is to reimburse the County of Mono, and $76,950,000 is to reimburse the County of San Mateo. Budget bill language that was also included

State Administration and General Government	
	in the two-party legislative agreement to authorize the Director of Finance to augment this amount by $80 million to reimburse the remaining shortfalls for the County of San Mateo was deleted.
Elections	▪ Appropriates $34 million for county elections. Specifically, $29 million for counties to increase the number of available staff to tabulate votes, make equipment purchases or technology upgrades, or acquire space to accommodate additional staff or equipment purchases to expedite the vote counting process and strengthen and protect election integrity and $5 million for counties to provide voter outreach and education before the November 3, 2026, statewide general election, including with respect to the benefits of submitting ballots before election day. The Department of Finance will prepare an allocation schedule for each portion of funding.

Housing, Transportation, and Natural Resources	
Housing Funding	▪ Includes funding for housing programs including: o $500 million for State Low-Income Housing Tax Credits o $200 million for the Multifamily Housing Program o $100 million for the new Disaster Rebuilding Fund for disaster-impacted homeowners ($56 million General Fund and $44 million National Mortgage Settlement Funds)
Development Impact Fees	▪ Effective July 1, 2027, AB 179 incentivizes local governments to waive or reduce development impact fees by counting such actions as local matching funds for state housing grant programs. Requires state agencies awarding competitive housing grants to reduce awards by an amount commensurate to city or county development impact fees when a city or county is the lead applicant and does not waive its own impact fees for the project.
Homeless Housing, Assistance and Prevention (HHAP)	▪ Provides $900 million on a one-time basis for round 7 of the HHAP Program – an increase of $400 million over the previously negotiated level for 2026-27.
Disaster Rebuilding Fund	▪ AB 179 establishes the Disaster Rebuilding Assistance Program within the California Housing Finance Agency to support construction, reconstruction, and renovation loans for properties damaged or destroyed in a state or federally declared disaster.
Affordable Housing and Sustainable Communities Program	▪ AB 179 divides the administration of the Affordable Housing Sustainable Communities (AHSC) Program between the Strategic Growth Council (SGC) and the Housing Development and Finance Executive Committee beginning with new funding rounds initiated on or after July 1, 2026. Requires the SGC to use the AHSC Sustainable Communities Allocation to support flexible infrastructure and community improvement investments that advance greenhouse gas reductions, sustainable land use, and infill housing.
Governor's Housing Reorganization Plan	▪ SB 170 codifies the Governor's reorganization plan dissolving the Business, Consumer Services and Housing Agency and establishing the Housing and Homelessness Agency.
Greenhouse Gas Reduction Fund	▪ Defers appropriating the majority of Greenhouse Gas Reduction Fund (GGRF) including discretionary funding and state operations.

Housing, Transportation, and Natural Resources	
	▪ In addition to appropriations of GGRF for CalFire, the Conservation Corps and CalOES included in the Legislature's budget, AB/SB 111 includes an additional $171 million in GGRF appropriations for various programs and state operations, including $115 million for light-duty zero-emission vehicle incentives and $51 million for the Air Resources Board.
Public Transit Funding Flexibilities	▪ SB 169 extends the suspension of financial penalties for failure to meet farebox recovery standards and the suspension of other specified efficiency standards of the Transportation Development Act through the 2026-27 fiscal year.
Zero-Emission Vehicle Incentives	▪ Appropriates $135.5 million ($20.5 million Air Pollution Control Fund and $115 million GGRF) for light-duty zero-emission vehicle incentives and adopts enabling legislation (SB 168). ▪ Appropriates $135.5 million from the Air Pollution Control Fund for medium- and heavy-duty zero-emission vehicle incentives through the Hybrid and Zero-Emission Truck and Bus Voucher Project (HVIP).
Climate Bond	▪ Defers Proposition 4 bond funding allocation decisions to August budget legislation.

Public Safety	
Pretrial Funding	▪ Provides $20 million to restore a previously planned reduction to the pretrial services program. While the Legislature has framed this as part of a $50 million total Proposition 36 investment, the $20 million holds the existing program flat.
Proposition 36	▪ Provides $20 million for non-competitive grants to county behavioral health departments to support the implementation of Proposition 36. ▪ Provides $10 million to the Judicial Council to allocate to trial courts to address increased workload and expanding or establishing collaborative courts for the implementation of Proposition 36.
Prison Closures	▪ Does not include language requiring an additional prison closure but instead requires CDCR to achieve $75 million of savings in 2027-28 and $150 million in 2028-29.
Human Trafficking	▪ Provides $10 million for human trafficking vertical prosecution grants.
Judgeships	▪ Provides funding for 13 new judgeships in the next five years.
Victims of Crime Act (VOCA)	▪ Provides $50 million for VOCA funding.
CARE Act	▪ Provides $3.5 million for public defenders to increase CARE Act petitions and referrals.
Indigent Defense	▪ Provides $5 million to implement an indigent defense pilot program in four counties (Del Norte, Mariposa, Mono, and San Benito).

Please feel free to contact any one of us at Hurst Brooks Espinosa with questions …

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